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SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 09/26/07

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(1) Japanese, US chief negotiators reiterate need for cooperation in effort to denuclearize North Korea

TOKYO WEB

September 26, 2007

Foreign Ministry's Asian and Oceanian Affairs Bureau Director General Kenichiro Sasae, Japan's chief delegate for the six-party talks on North Korea's nuclear development problem, met with United States Assistant Secretary of State Christopher Hill, the US' top negotiator with North Korea, at the Foreign Ministry this morning. They agreed on the need for Japan and the US to work together to produce substantive results in the next round of the six-party talks in Beijing starting Sept. 27 in an effort to address specific steps for disabling North Korea's nuclear facilities and other measures to be taken in the second phase.

In reference to the issue of North Korea's past abductions of Japanese nationals, Hill emphasized: "The US will never sacrifice relations with Japan for the sake of US-North Korea relations." They also shared the view that the two countries also should take joint steps in tackling the abduction issue. After the meeting, Hill told reporters: "The abduction issue is our priority task."

Sasae said to reporters: "I appreciate the US' strong support. Such support from the US is crucial to our negotiations."

(2) Hill reveals US plan to provide North Korea with 50,000 tons of

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heavy oil as early as October

MAINICHI NET (Full)

13:16, September 26, 2007

Visiting US Assistant Secretary of State Christopher Hill gave an interview to news companies, including the Mainichi Shimbun, at the US Embassy in Tokyo earlier today, in which he indicated that the United States would start providing North Korea with 50,000 tons of heavy oil as early as October in return for its denuclearization steps.

In the six-party plenary session scheduled to begin in Beijing on Sept. 27, the focus will be on concrete steps to disable the nuclear facilities and to completely declare the nuclear programs by the end of the year -- the second stage in the agreed-upon dismantlement of the existing nuclear programs. Assistant Secretary Hill underlined the need to focus on the North's plutonium production capability, while predicting tough negotiations on the definition of disablement and other matters. For the time being, the focus will be on three facilities, including the 5000-kilowatt graphite-moderated reactor in Yongbyon, that were inspected in mid-September by nuclear experts from the United States, China, and Russia.

The US official also indicated the need to pursue alleged development of highly-enriched uranium.

(3) US Assistant Secretary of State Hill: "We'll focus on uranium enrichment programs and graphite-moderate nuclear reactors, etc."

SANKEI ONLINE NEWS (Full)

September 26, 2007, 11:22 a.m.

Akio Takahata

US Assistant Secretary of State Hill this morning met with a small number of reporters, including a Sankei Shimbun reporter, and revealed that in the upcoming six-party talks to begin tomorrow, he would fully shed light on the uranium enrichment programs and narrow the objects of disablement down to such main facilities as: (1) graphite-moderated nuclear reactors, (2) reprocessing facilities,

and (3) fuel-rod production factories.

Citing the total amount of nuclear-bomb-grade plutonium possessed by North Korea as "50 or so kilograms," Hill proclaimed: "The final goal is to remove all of it from the country, in other words, a complete nuclear program dismantlement as specified in the six-party joint statement." Referring to the definition of disablement, Hill explained: "It means to make it impossible to re-operate the facilities for one or so year. If during that time the nuclear abandonment process makes progress, the (nuclear) issue will be resolved."

According to Hill, the major purpose of the talks this time is to define the term "disablement of North Korea's nuclear facilities" based on a report made by a group of experts from the United States and Russia, who recently conducted an on-the-spot inspection in Yongbyon and then to call on North Korea to report on every aspect of its nuclear weapons.

On the delisting of North Korea from the list of state sponsors of terrorism, a matter of concern for the Japanese government in

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relation to the issue of Japanese nationals abducted to North Korea, Hill commented: "We have recognized that the abduction issue is a serious, humanitarian issue. Whenever we hold talks with the North Koreans, we have called on them to move forward to resolve the issue. There is no change in this policy."

Western media have reported on the suspicions about cooperation between North Korea and Syria on nuclear development. When asked about the suspicions, Hill said: "We can't overlook any nuclear proliferation case. In the six-party talks this time, we will demand that North Korea gives us a proper explanation."

(4) Foreign minister to visit US starting on Sept. 27 to take part in global warming conference, UN General Assembly

Tokyo Shimbun Online (Full)  
September 26, 2007

Foreign Minister Masahiko Komura on Sept. 26 decided to make a four-day visit to the US starting on Sept. 27 in order to attend the conference of major global warming gas emitters to be held in Washington. US Secretary of State Rice is also expected to take part. Komura will go to New York on Sept. 28. He is considering delivering a speech in a general debate session at the UN General Assembly.

Komura during the global warming conference explain Japan's long-term target of cutting its greenhouse gas emissions by 50 PERCENT by 2050. He will also play up his resolve to establish an international framework replacing the Kyoto Protocol.

He wants to underscore the Fukuda cabinet's determination to combat global warming with an eye on the G-8 Summit (Lake Toya Summit in Hokkaido) next year.

The conference will be held at the initiative of President Bush. Participants will include Japan, the European Union and China.

(5) Chief Cabinet Secretary Machimura eyes discussions on new refueling legislation as early as mid-October

TOKYO WEB (Full)  
September 26, 2007 01:31 p.m.

Chief Cabinet Secretary Nobutaka Machimura expressed at a press conference after the first cabinet meeting his hopes for the House of Representatives to start discussions as early as mid-October on new legislation designed to allow the Maritime Self-Defense Force to continue its refueling mission in the Indian Ocean. He also indicated that the new legislation would be limited to refueling and supplying water and the rule for requiring Diet approval would be deleted as the government due to the limitations.

Regarding the creation of the new legislation, Machimura pointed out: "It is only natural for us to make efforts so that we will be able to launch deliberations after the end of budget committee sessions in the two chambers of the Diet (slated for the second week in October)." He then said: "The contents of the legislation that were studied by the former Abe cabinet would become the basis."

Asked by reporters about the possibility of the legislation being re-approved at the Lower House after being voted down at the Upper

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House, Machimura responded: "If I am asked, I will say that there is such a method, but there are matters we should pursue before we reach such a conclusion."

(6) Fukuda administration launched: Consensus-oriented Fukuda's leadership in structural reform questionable

TOKYO SHIMBUN (Page 11) (Abridged slightly)  
September 26, 2007

Prime Minister Yasuko Fukuda launched his cabinet yesterday. The reappointed economic ministers all indicated that they would push ahead with structural reform, just as they had done under the Abe administration. The advancement of structural reform requires the prime minister's strong leadership. Yet the lineup of new Liberal Democratic Party executives testifies to Fukuda's inclination toward harmony rather than leadership. Although the coordination of views with the Democratic Party of Japan (Minshuto or DPJ), the largest party in the House of Councillors, is indispensable in implementing policies, the future of structural reform has now become unclear.

#### Council on Economic and Fiscal Policy

The Council on Economic and Fiscal Policy (CEFP), a body chaired by the prime minister that served as an engine of the structural reform drive under the Koizumi and Abe administrations, is likely to reduce its presence under the Fukuda administration.

The path to structural reforms has been paved with the prime minister's bold decisions based on proposals by private-sector CEFP members. In order for the CEFP to function effectively, the prime minister's strong leadership is essential. Chances are slim, however, for Prime Minister Fukuda, who puts high priority on factional harmony in running the LDP, to exhibit strong leadership in such policy areas.

Fukuda reappointed Hiroko Ota as minister in charge of economic and fiscal policy, who has been closely associated with the CEFP since the Koizumi administration. But under the consensus-oriented prime minister, the CEFP might no longer be able to function as before. The panel might also find it difficult to discuss drastic policies in deference to the DPJ.

#### Road-related tax revenue

Last December, then Abe cabinet came up with a plan to transform road-improvement taxes, such as gasoline taxes, into general revenue. This, too, might roll back under the Fukuda cabinet. In a press conference following his election as LDP president, Fukuda said: "I wonder if the road-improvement tax revenue should be used for other purposes. The matter needs discussion."

Although public works spending in the general account has been dropping in recent years, the government has lavishly distributed the road-improvement tax revenue in excess of 3 trillion yen annually. A stop can be put to it by turning the road-improvement tax revenue into general revenue. A re-discussion on the matter is expected to elicit stiff resistance from the LDP road policy clique in the Diet.

The temporary tax rate system, the basis for high road-improvement taxes, ends next March. The government needs to enact new

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legislation. Depending on the DPJ's move, the tax rates might drop significantly. This might prevent the government from turning the road-improvement tax revenue into general revenue and cause an adverse effect on maintaining and improving roads.

#### Fiscal reconstruction

Attention is focused on hiking the consumption tax as a means of funding the government's plan to raise its contribution to the basic pension scheme from one-third to half. As seen from his eagerness to hold talks with the DPJ, Prime Minister Fukuda is receptive to a plan to totally fund the basic pension scheme with taxes. Nevertheless, the ruling coalition is expected to face difficulties in coordinating views with the DPJ, which aims to wrestle power from it.

The LDP's coalition partner of the New Komeito is also calling for freezing the planned increase in elderly people's share of medical payments and other matters. With growing social security costs in the backdrop, securing financial resources is essential for restoring fiscal health. The New Komeito has even suggested postponing the government's goal of realizing a surplus in the primary balance in 2011. Whether the consensus-oriented Prime Minister Fukuda can withstand such pressure remains to be seen.

#### (7) Fate of economic policy: Switch from structural reforms; Realistic scenario for tax hike

SANKEI (Page 2) (Full)  
September 26, 2007

With the inauguration of the Yasuo Fukuda cabinet, Fukuda-style economic and fiscal reforms will get underway. He has shown understanding for increasing fiscal expenditures to deal with such issues as social security and regional disparities. He has at the same time indicated a positive stance toward a consumption tax hike in the future. During power-sharing talks with the New Komeito, he has pledged to consider taking measures that would lead to an increased spending. The situation is such that the structural reform policy, which has been carried on by the Koizumi and Abe administrations, is bound to be adjusted by the new prime minister.

Prime Minister Fukuda during a press conference held yesterday evening noted: "The social situation has changed in terms of pending issues we face. We have now entered a new age characterized by declines in birthrates and population. We must also consider how the economy will change." He indicated his stance of moving forward with the reform drive, while taking into account the changing socio-economic situation.

Fukuda incorporated in his policy initiative a plan to consider placing a freeze on an increase in the medical burden shouldered by the elderly. The LDP and the New Komeito have also agreed on this policy in their power-sharing talks. They will also consider putting on hold reductions in portions of child allowances for single-mother families. Some take the view that this would lead to an increase in fiscal outlays up to 100 billion yen.

Medical expenses shared by elderly people aged between 70 and 40 are set to be raised from the current 10 PERCENT to 20 PERCENT next April. The reform had been intended to constrain growth in medical expenses for the elderly. However, there is a gap between this

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reform policy and the new administration's policy.

Reappointed State Minister in charge of Economic and Fiscal Affairs Hiroko Ota pointed out, "We would like to have the Council on Economic and Fiscal Policy discuss options, while taking into account the issue of who is going to shoulder the burden caused by a change in the medical service system for the elderly."

The Abe administration explored ways to reconstruct public finances without hiking taxes by striking a balance between spending cuts and economic growth. It drew up a scenario of squeezing funding

resources to bring the primary balance into the black by 2011 by cutting expenditures by 11-14 trillion yen over five years and making up for the remaining cost with an increase in tax revenues through economic growth.

In contrast, Fukuda appointed former Finance Minister Sadakazu Tanigaki, who advocates fiscal reconstruction, as Policy Research Council chairman -- one of the three LDP top executives. He has thus veered from the growth strategy in terms of the selection of personnel as well. The appointment of Tanigaki glimpses Fukuda's realistic scenario of securing necessary revenues with tax hikes, while avoiding excessive spending cuts.

Fukuda did not touch on when to hike the consumption tax and the scope of a hike. He has given few explanations on concrete measures to persuade the DPJ. His ability to deliver new policies, while showing funding resources and abiding by fiscal disciplines, will be put to the test.

(8) Prime Minister Fukuda installs tried and true lawmakers to Kantei posts; Picks his elder son as political secretary

YOMIURI (Page 2) (Full)  
September 26, 2007

Prime Minister Yasuo Fukuda has appointed Nobutaka Machimura, who heads the faction to which Fukuda belonged, as chief cabinet secretary. He installed tried and true lawmakers and bureaucrats to

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Kantei (Prime Minister's Official Residence) posts, putting a former Kantei staff member back in his old haunts. Fukuda was elected LDP president and prime minister soon after Shinzo Abe's abrupt resignation announcement. He appears to have placed priority on forming a sound cabinet lineup in order to cover the lack of preparations for becoming prime minister.

Both Matsushige Ono and Mitsuhide Iwaki, deputy chief cabinet secretaries for political affairs, who were retained in their posts,

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belong to the Machimura faction. The prime minister, the chief cabinet secretary and deputy chief cabinet secretaries are members of the Machimura faction.

Masahiro Futahashi was appointed again as deputy chief cabinet secretary, the top of the bureaucracy, after a year hiatus. He

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served in the post for three years from September 2003 in the Koizumi government, assisting Fukuda until May 2004 when he stepped down from the chief cabinet secretary's post.

Chief Cabinet Secretary Machimura stated yesterday at a press conference on the appointment of Futahashi: "My understanding is that the prime minister determined that Mr. Futahashi, who is familiar with the Kantei, would be necessary to deal with various

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issues."

Fukuda informally picked his elder son, Tatsuo Fukuda, 40, as political secretary, and the Finance Ministry's Overall Coordination Division Director Nobumitsu Hayashi, the Foreign Ministry's International Cooperation Bureau's Aid Policy Management Division Director Kimihiro Ishigane, the Economy, Trade and Industry Ministry's Policy Planning and Coordination Division Director Ikuro Sugawara, and the National Policy Agency's Investigative Planning Division Director Shunichi Kuryu as administrative secretaries. Hayashi and Ishigane worked as secretaries to Fukuda when he was serving as chief cabinet secretary.

Prime ministerial assistants -- Kyoko Nakayama and Eriko Yamatani -- were retained in their posts.

Number of faction members named cabinet ministers and LDP

executives

Faction   Faction leader Fukuda cabinet Second Abe cabinet First Abe  
cabinet  
Machimura   Chief Cabinet Secretary Machimura 2 1 4  
Tsushima Finance Minister Nukaga 4 3 2

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Koga Election Committee Chairman Koga 2 2 4  
Yamasaki 2 2 1  
Ibuki LDP Secretary General Ibuki 1 2  
Aso 1  
Nikai General Council Chairman Nikai 1 1  
Komura Foreign Minister Komura 1 1 1  
Tanigaki LDP Policy Research Council Chairman Tanigaki  
No faction 2 3  
New Komeito 1 1 1  
Private sector 2 2 1

The prime minister is excluded. Nukaga is deputy head of the Tsushima faction.

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(9) Scanner column -- Aso eyes next opportunity for him to take top seat of government; He refused to join Fukuda cabinet, citing "difference in philosophy"

YOMIURI (Page 3) (Full)  
September 26, 2007

Takaharu Yoshiyama, Kohei Kawashima

The Fukuda cabinet was launched, retaining most members of the former Abe cabinet. The focus of the public attention was on whether former Secretary General Taro Aso would join the cabinet, but Aso refused, making clear his posture of readying himself to make a bid for the top seat after Fukuda. In the days of the Koizumi and Abe administrations, factions had nothing to do with the selection of cabinet members, but the situation has changed completely. Influential faction members have now retrieved their former pattern of behavior over personnel selection as evidenced by the movements of former Prime Minister Yoshiro Mori, the honorary chairman of the Machimura faction. Mori hustled about coordinating views for the selection of cabinet members, as well as top party officials.

Fukuda directly tapped Aso's intention

In forming a cabinet, Fukuda gave priority to offering a ministerial

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portfolio to Aso, with whom Fukuda fought for premiership.

Aso was beaten by Fukuda, but nearly 40 PERCENT of the LDP Diet members and its local chapters voted for Aso. In order to revive the party, Fukuda needed to obtain Aso's cooperation. He repeatedly tried to approach Aso to install him as a cabinet minister.

Early morning of Sept. 24, the telephone in Aso's private residence was ringing. It was a call from Mori.

Mori: "I'd like you to join the cabinet and support Fukuda."

Aso: "I understand your request. But as I have mentioned before, Mr. Fukuda and I are fundamentally far apart in our philosophies."

Fukuda, however, did not give up the idea of installing Aso in a ministerial post.

When Fukuda and Aso attended together a special session of the LDP General Council at noon of the same day, Fukuda directly asked Aso to join the cabinet, saying, "I'd like to talk in detail with you on this matter."

On Sept. 25, immediately before the designation of prime minister, Fukuda stressed to reporters: "I'd like to ask Mr. Aso to help me."

I'll again ask him to join the cabinet at a time when (I am named as prime minister)." Immediately after being designated as prime minister at a full session of the House, Fukuda and Aso passed each other in the Diet and Fukuda offered Aso his hands in public for a handshake and whispered to Aso: "Please change your mind. I need your cooperation."

In the meantime, aides to Aso had their own views respectively about how to distance themselves from the Fukuda administration.

Former State Minister in Charge of Disaster Prevention Yoshitada Konoike suggested directly to Aso: "You should not assume just any post that will be offered to you." On the other hand, a deep-seated view in the Aso faction was that "Aso is the head of a very small faction. If he does not hold any cabinet post, it will become difficult for him to make his presence felt."

Under this situation, one rumor flew around yesterday that enraged Aso. The rumor was that a senior member of the Machimura faction said that Justice Minister Hatoyama and Minister of Economy, Trade and Industry Amari "who had both backed Aso in the presidential race should be replaced.'

In fact, former Vice President Taku Yamasaki told Fukuda "to remove Amari from the post," according to a senior Machimura faction member.

Aso flew into a rage, arguing, "Who is responsible for personnel selection?" Yesterday evening, there was a telephone call from the Fukuda office to the Aso office seeking to have contact with Aso. But Aso told his staff to "ignore it." This was the moment of Aso giving his final no to (Fukuda's call) for him to join the cabinet.

It was eventually decided to keep Hatoyama and Amari in their previous ministerial posts. Meeting the press, Hatoyama said, "Although Mr. Aso will not join the cabinet, Mr. Amari and I will join, so a whole-party stance has now been formed," indicating that

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Aso insisted that ministerial posts be offered to Hatoyama and Amari instead of himself.

At a press briefing late yesterday, Fukuda stressed: "Mr. Aso has his own circumstances. He is not a cabinet member this time, but I think we can work together." Meanwhile, Mori criticized Aso's response in New York, telling reporters: "Mr. Aso made such a decision, but frankly speaking, it is regrettable."

A senior Yamasaki faction member made this analysis: "Mr. Aso's refusal to join the Fukuda cabinet is the same as Mr. Fukuda's refusal to join the Abe cabinet." Aso has said, "I'd like to travel to local areas," but apparently he eyes the next opportunity for him to come to power after Fukuda.

On the night of Sept. 24, Aso telephoned House of Representatives member Taizo Sugimura, one of the so-called Koizumi children. Sugimura belongs to a group of one-term lawmakers "Atarashii Kaze" (New Breeze). This group decided to back Fukuda in the recent presidential race, but in reaction to the group's decision, Sugimura voted for Aso. Aso told Sugimura: "You may face a number of difficulties. If you are in trouble, please feel free to ask for help from me."

(10) New LDP President Fukuda's four organizations raise 100 million yen, leaving some expenditures unaccounted for

AKAHATA (page 15) (Full)  
September 26, 2007

Former Chief Cabinet Secretary Yasuo Fukuda (House of Representatives member from Gunma No. 4 constituency) was elected new Liberal Democratic Party president. He has four "wallets": i.e., political organizations. It has been found that these groups raised 108.5 million yen in 2006, if calculated with the money moved among these political groups excluded.

## Corporate donations and taxpayers' money

The LDP Gunma Prefecture 4th electoral district branch office in Takasaki City, led by Fukuda, serves as an office to receive corporate or group donations and state subsidies originally coming from taxpayers' money.

Out of the 45.57 million yen recorded in political funds reports, 17.05 million yen came from companies or groups, with only 420,000 yen from individuals.

The branch office listed the names of 50 companies or organizations in Gunma, Tokyo, Kyoto, Osaka, and other districts that offered more than 50,000 yen each. But since political groups are not required to declare a contribution of less than 50,000 yen, contributors for about 2.85 million yen or about 17 PERCENT of the total were left unaccounted for.

The branch office received a total of 16 million yen in subsidies from LDP headquarters in six installments, of which 10 million yen were state subsidies coming from taxpayers' money.

Looking at expenditures, the branch office provided 3.4 million yen to LPP branch offices in Takasaki, Fujioka and other places, giving consideration to power bases for the party.

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## 50 million yen in two installments

The Chiyoda Economic Council, based in Toranomon, Tokyo, a fund-management organization that raised 52.11 million yen, set up an office on the same site and held a party at the Akasaka Prince Hotel in Tokyo twice in cooperation with the Fukuda Economic Research Institute, an affiliated political group that collected 6.53 million yen. By holding the parties, the council earned approximately 50 million yen, while using only about 7.4 million yen for the parties.

Although 1,061 bought party tickets, it remains unknown who purchased the tickets, because political groups are required under the Political Funds Control Law to list only those who purchased party tickets worth 200,000 yen or over.

It has also been learned that the Fukuda groups received 3 million yen worth of donations from a political arm of the Japan Medical Association.

## Political groups with same name

Surprisingly enough, there is also a group called the "Fukuda Economic Research Institute," under the jurisdiction of the Gunma prefectural election administration commission -- besides the one with the same name but under the Internal Affairs Ministry. This institute is located on the same site as that housing the 4th electoral branch office. The institute received 12.4 million yen in contributions in three installations from the Chiyoda Economic Council. It booked 4.29 million yen in revenues, but there was no declaration of expenditures.

The Chiyoda Economic Council listed about 4.67 million yen as expenditures for managing the organization, but about 3.87 million yen was reported as payments to Japanese restaurants and sushi bars near Nagata-cho, the political area in Tokyo, as expenses for meetings. About 800,000 yen was left unaccounted for.

In the 4th electoral district branch office and the Fukuda Economic Research Institute in Takasaki, 1.45 million yen in total remains unaccounted for.

## Negative stance about disclosure

On Sept. 23, when Fukuda was elected new party president, Fukuda's office in Takasaki served a cask of sake and festive red rice to his supporters who had gathered there. But where did the money to pay for that come from?

Fukuda remains negative about a proposal for requiring political groups to attach receipts for expenditures of more than one yen, saying: "If political groups are required to publicize everything, our political activities will be totally disclosed." Fukuda's political funds reports show why he takes a negative stance.

SCHIEFFER